Problem-driven PEA applied: the case of Mongolia

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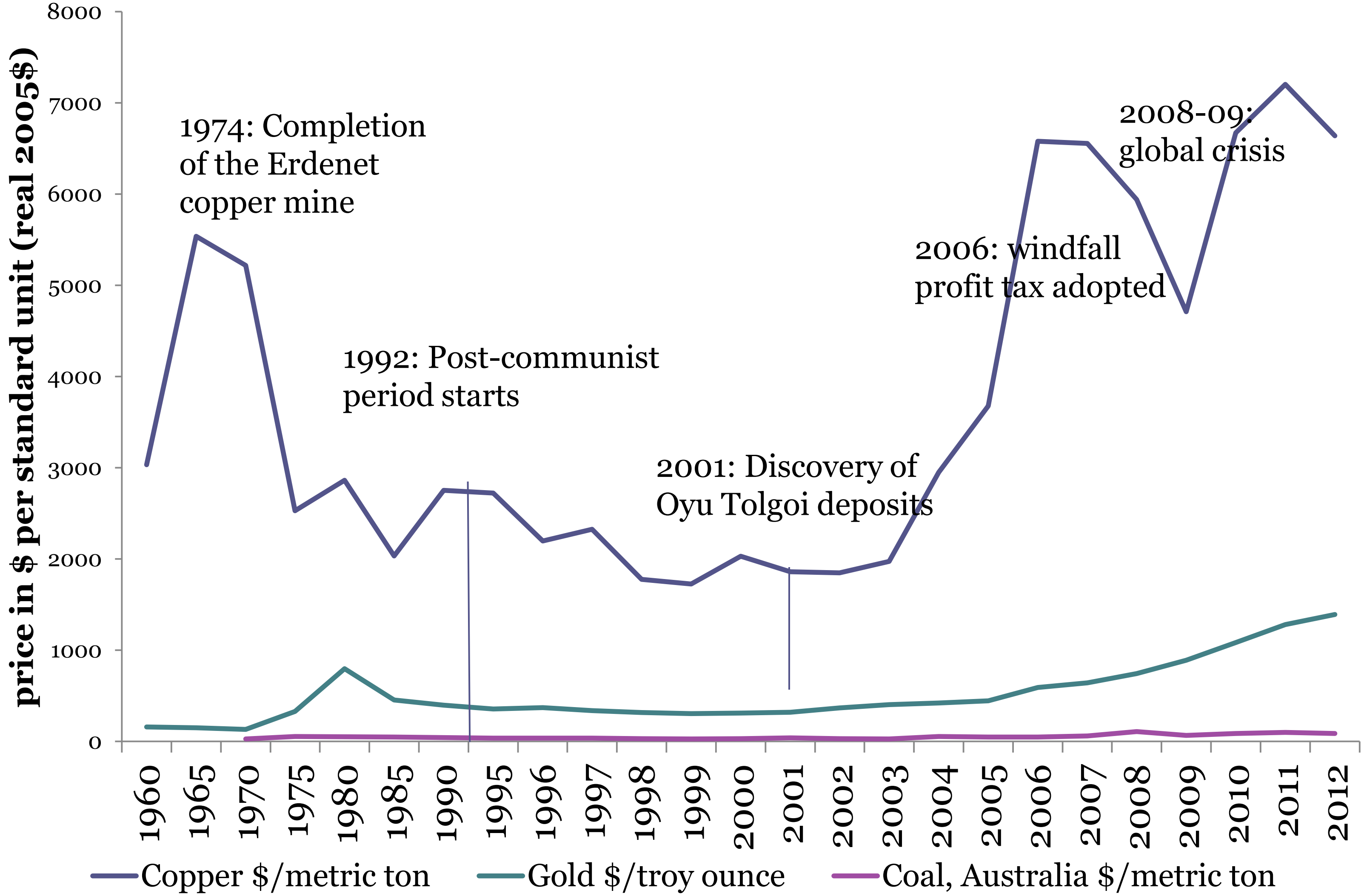
What is the problem?

- Mining sector boom taking off in the mid-2000s
  - How to guard against ‘resource curse’
  - For the Bank and other DPs: declining influence
- Persistent levels of poverty since the 1990s

Structural factors: price swings



Russia
Irkutsk
Trans-Siberian Railway
Chita
N
Erdenet
Copper Mine
Ulaanbaatar
Mongolia
Trans-Mongolian Railway
Mandalgovi
Sajn Sand
China
China
Dalanzadgad
Tavan Tolgoi
Oyu Tolgoi
Khanbogd
Trans-Manchurian Railway
Bayan Obo
Jining
Beijing
Wuyuan
Trans-China Railway
Baotou
Datong
Port of Tianjin
(exports to Japan & Korea)
Gulf of Bohai
Regional Inset Map
Russia
Kazakhstan
Mongolia
North Korea
South Korea
China
India
Existing road
Existing road
Existing railways
0
400km

Analytic work done

- Analysis of overall country level drivers, including the electoral system
- Analysis of specific issues, including:
  - PE challenges for fiscal management
  - PE challenges for public investment management
  - PE challenges related to social programs

Key findings

- Since 2004, the parliament, and behind parliament political parties have driven key policy decisions, not the executive
  - Shift due to shrinking majority
- Electoral incentives and experience over multiple electoral cycles – powerful in shaping policy and budget allocation choices pursued by parties
  - Allocating public investments to particular constituencies
  - … DU underwent a policy reversal between pro-austerity program (1996), massive loss in 2000 and regaining votes with promises of large-scale social spending (2004)
- Rapid increase in election campaign spending
  - Triggers the ‘need’ to use public procurement and other rent-seeking mechanisms

Key findings continued

- Citizens have accelerating expectations
  - Resource nationalism – including v critical perception of the WB's role (1997 mining sector law)
- Specter of massive rents to share among elites – violent confrontation after the 2008 elections
  - Through mining licensing, ownership of construction companies, etc.

Recommendations

- Strengthen domestic capacity for policy analysis and assessment of trade-offs
- Engage with parliament and parties on key policy areas
- Strengthen social accountability
- Take government preferences/reformer preferences seriously, rather than pursuing 'best practice'
- Continue investing in institutions that had begun to strengthen prior to the boom
  - E.g. institutions and legal rules governing PIM

How was the PEA used?

Greater influence:

- Shift to greater engagement with parliament and key thinkers in political parties
  - Large-scale public outreach in 2008-09 on FSL
  - July 2010: parliament passes fiscal stability law
- Support for developing local think tank capacity
  - Establishment of the Economic Research Institute in October 2010
- Civil society oversight anchored in procurement legislation

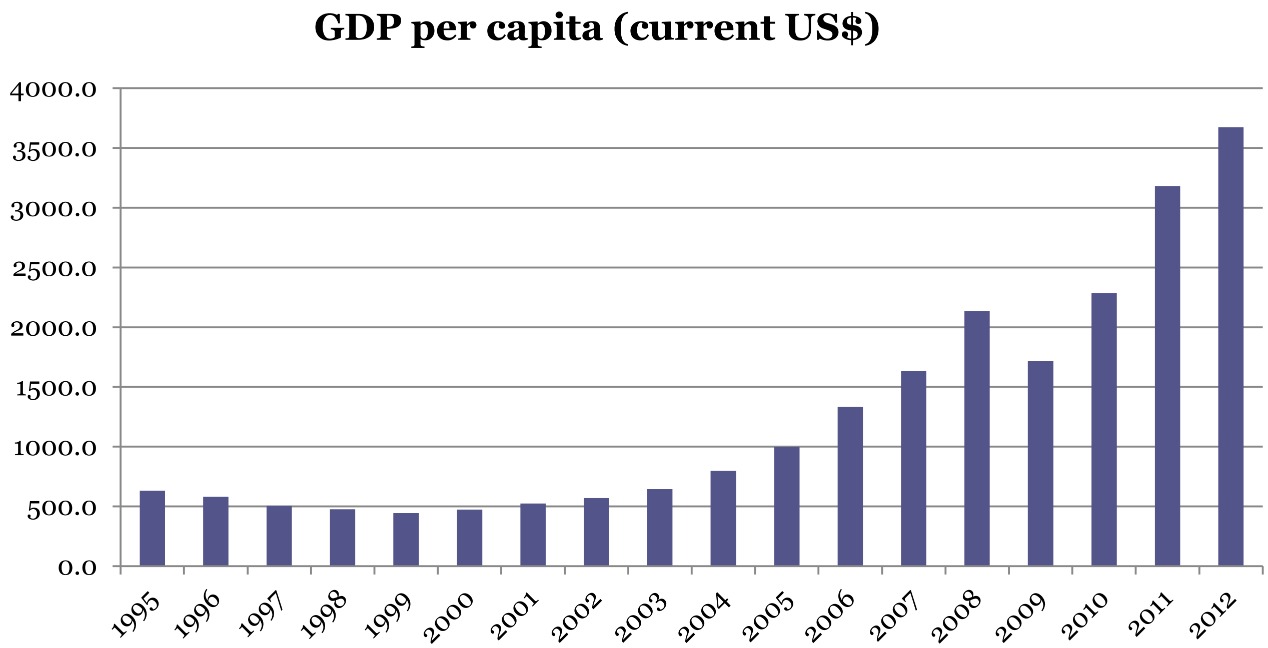
Less influence:

- Policy recommendations remained rather anchored in first best options (NB: which can be superseded)
  - Social welfare policies (and less outreach)
  - Institutions for public investment management
  - No specific assessment of whether the FSL would be robust

What effects?

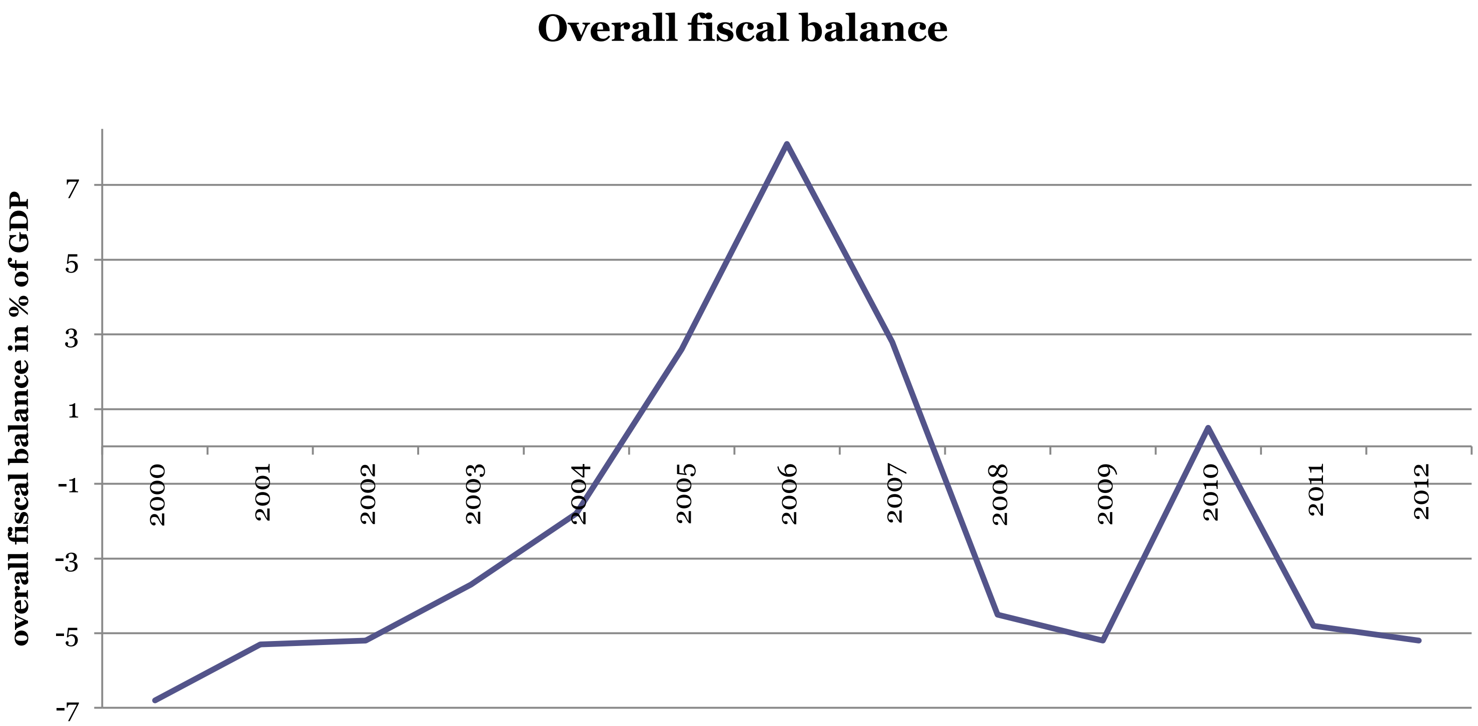
- The fiscal stability law proved not to be robust
  - spending increased by 70% between 2010 and 2012, debt has risen from 39 to 67% of GDP
  - Government pledges that it will implement FSL going forward
- Think tank is in place and has been influencing public debate since 2012
- Public procurement partnership established in 2012
  - Following legal changes in 2011
  - Focused on roads; pushing down to local levels
- Social policies have remained heavily driven by electoral incentives & fiscal opportunities
  - Not targeting
  - Achieved 10% poverty reduction (38% to 27% in 2 years) – at high fiscal cost

Thank You!



Source: World Bank, World Development Indicators (database).
Note: GDP = gross domestic product.

Figure 2.5 Overall Fiscal Balance, 2000–12



Source: IMF.